

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

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SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

/092 W

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R 121730Z SEP 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 1485

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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E.O. 11652: N/A

TAGS : ENRG BR

SUBJECT : RISK CONTRACTS FOR PETROLEUM (CHAPTER III)

REF: (A) BRASILIA 3954, (B) BRASILIA 4265

SUMMARY: WHILE PETROBRAS ADVANCES ITS EXTENSIVE DRILLING PROGRAM ALONG BRAZIL'S CONTINENTAL SHELF, THE CONTROVERSIAL SUBJECT OF RISK CONTRACTS WITH FOREIGN OIL COMPANIES TO EXPLORE IN BRAZIL HAS RETURNED TO THE FRONT PAGES. ALTHOUGH GOB SPOKESMEN HAVE CATEGORICALLY DENIED PLANNING SUCH A POLICY CHANGE AWAY FROM PETROBRAS'S 21-YEAR-OLD STRICTLY-IMPLEMENTED MONOPOLY POSITION, THE CONTROVERSY IS CONSIDERED CERTAIN TO CONTINUE UNLESS PETROBRAS FINDS ADDITIONAL NEW RESERVES AND CAN RAPIDLY BRING THEM INTO PRODUCTION. END SUMMARY.

1. BRAZIL'S PETROLEUM SITUATION, WHICH HAD BEEN ON THE LOCAL PRESS'S BACK-BURNER FOR THE PAST FEW MONTHS AS NUCLEAR  
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ENERGY CAPTURED THE HEADLINES, IS ONCE AGAIN A PRIME TOPIC

FOR DISCUSSION. WHILE TEST DRILLING IS REPORTED TO CONTINUE TO BE SUCCESSFUL ON THE GAROUPA STRUCTURE LOCATED WITHIN THE CAMPOS BASIN OFF THE COAST OF THE STATE OF RIO DE JANEIRO, THE GOB HAS BEEN SPEAKING IN INCREASINGLY OPTIMISTIC TERMS OF THE AREA OFF-SHORE FROM AMAPA IN THE MOUTH OF THE AMAZON RIVER. THE CONDITIONS FOR DRILLING, HOWEVER, ARE REPORTED TO BE VERY DIFFICULT, WITH PETROLEUM EXPECTED TO BE ENCOUNTERED NEARLY 300 KILOMETERS FROM THE AMAPA COAST AT A DEPTH OF GREATER THAN 4,700 METERS AND A WATER TABLE OF 300 METERS.

2. AT THE PRESENT TIME PETROBRAS IS OPERATING A TOTAL OF 18 DRILLING RIGS FOR EXPLORATION IN THE FOLLOWING CONTINENTAL SHELF AREAS: TWO IN THE MOUTH OF THE AMAZON; EIGHT IN THE SERGIPE-ALAGOAS BASIN; FIVE IN CAMPOS; TWO OFF RIO GRANE DO NORTE; AND ONE OFF SOUTHERN BAHIA-ESPIRITO SANTO.

3. THE MINISTRY OF MINES AND ENERGY ANNOUNCED LAST WEEK THAT OIL STRUCK IN TWO LIMESTONE ZONES ON THE SECOND EXTENSION WELL AT GAROUPA TESTED AT A RATE OF 2,500 B/D. NO OTHER INFORMATION WAS GIVEN. (OIL TESTING AT 2,180 B/D AND 2,800 B/D WAS STRUCK EARLIER IN TWO SANDSTONE ZONES AT 2,680-2,688 METERS AND 2,718-2,724 METERS ON GAROUPA'S FIRST EXTENSION WELL, WHILE GAROUPA'S PIONEER WELL ENCOUNTERED OIL-BEARING LIMESTONE AT 3,150 METERS WHICH TESTED AT 5,000 B/D.)

4. ACCORDING TO THE LOCAL PRESS, MINISTER OF FINANCE SIMONSEN IN NEW YORK ON SEPTEMBER 8 ANNOUNCED, INTER ALIA, THAT BRAZIL WOULD BE SELF-SUFFICIENT IN PETROLEUM WITHIN 10 YEARS. THE REACTION OF MOST OBSERVERS, PETROBRAS OFFICIALS AND THE PRESS, HOWEVER, WAS MINIMAL, SINCE SIMONSONSEN HAS BEEN KNOWN TO SPEAK OFF-THE-CUFF IN HIGHLY OPTIMISTIC FASHION OF BRAZIL'S PETROLEUM FUTURE. (THE DAY AFTER PETROBRAS ANNOUNCED THAT IT HAD STRUCK OIL AT GAROUPA LAST DECEMBER, SIMONSEN STATED THAT NATIONAL PRODUCTION MIGHT REACH ONE MILLION B/D BEFORE END OF DECADE - COMPARED TO THE CURRENT LEVEL OF 180,000 B/D).

5. RETURNING TO THE NEWS FOR THE MOST HEADLINES ON PETROLEUM IS THE NOW-RENOWNED RISK (OR SERVICE) CONTRACT CONTROVERSY. LIMITED OFFICIAL USE

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IN MAY, MINISTER OF MINES AND ENERGY UEKI TRIGGERED AN ENORMOUS OUTPOURING OF NATIONALIST SENTIMENT WHEN HE ANNOUNCED HIS "PERSONAL" VIEW THAT HE FAVORED GRANTING SUCH CONTRACTS TO FOREIGN OIL COMPANIES TO CARRY OUT EXPLORATION IN BRAZIL. THE ADVERSE SPONTANEOUS REACTION WAS SO VOCAL HOWEVER, THAT UEKI HIMSELF (WHO CLEARLY WAS RUNNING UP A GOB TRIAL BALLOON) QUICKLY THREW IN THE TOWEL AND CALLED FOR AN IMMEDIATE END TO THE "DEBATE" WHICH JUST TWO WEEKS BEFORE HE HAD PUBLICLY

ADVOCATED. SINCE THEN, THE SUBJECT HAS CONTINUED TO STIR CONSIDERABLE PRIVATE DEBATE. LAST WEEK IT HIT THE FRONT-PAGES AGAIN WHEN THE 'FOLHA DE SAO PAULO' CARRIED A STORY STATING THAT THE GOB PLANS TO ENTER INTO RISK CONTRACTS WITH FOREIGN COMPANIES IF PETROBRAS DOES NOT MAKE ANY NEW LARGE DISCOVERIES BY THE END OF THE YEAR. THE ARTICLE BROUGHT FORTH A SHORT BUT FIRM DENIAL FROM THE OFFICE OF PRESIDENT GEISEL, AS WELL AS FROM UEKI AND SECRETARY OF PLANNING REIS VELLOSO. (THE SEPTEMBER 8 'JORNAL DO BRASIL' CARRIED A TYPICALLY FORCEFUL EDITORIAL IN FAVOR OF BRINGING IN FOREIGN COMPANIES.)

6. COMMENT: THE RISK-CONTRACT CONTROVERSY HAS HAD THREE PEAK PERIODS - A YEAR AGO UP UNTIL THE ANNOUNCEMENT OF THE GAROUPA DISCOVERY; IN MAY, WHEN UEKI LAUNCHED HIS TRIAL BALOON; AND NOW. GIVEN THE CATEGORICAL DENIALS BY THE GOB SPOKESMEN, THIS CURRENT ROUND COULD BE SHORT-LIVED. MANY OBSERVERS OF THE DOMESTIC PETROLEUM SCENE AND THE ECONOMY IN GENERAL (BUT NOT NECESSARILY THE ONES WHO COUNT ON THIS HIGHLY POLITICIZED ISSUE) ARE EXPRESSING THE OPINION THAT A CHANGE IN THE PETROLEUM EXPLORATION POLICY IS INEVITABLE AND THAT THE GEISEL ADMINISTRATION WILL KEEP APPLYING ITS HIT-AND-RUN TACTICS OF DRIVING HOME THE ARGUMENTS UNTIL SUFFICIENT NATIONALISTIC ELEMENTS ARE, IF NOT SWUNG OVER, AT LEAST NEUTRALIZED.  
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